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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 000200

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SUBJECT: A VIEW FROM TAICHUNG: MAYOR HU ON ECONOMY AND
POLITICS

REF: TAIPEI 00028

Classified By: AIT Director Stephen M. Young, Reason 1.4 (b/d)

¶1. (C) Summary: (KMT) Taichung Mayor Jason Hu told the Director on January 24 that the KMT's ability to remain unified will be the key to returning to power in 2008. Ma remains the KMT's best hope for retaking the presidency, but he faces tough challenges. LY Speaker Wang Jin-pyng has been preparing a political "comeback" and could challenge Ma in the KMT presidential primary. Despite an internal KMT consensus on the need to pass an annual budget that boosts defense spending, Hu suggested that when it comes to action on the LY floor "passion" and immediate political advantage will likely cloud longer-term interests. Hu was very optimistic on Taichung's prospects for continued robust economic growth. End Summary.

¶2. (C) The Director met with Taichung City Mayor Jason Hu (Chih-ch'iang) on January 24 to discuss central Taiwan's economy, party politics, and the upcoming 2008 presidential elections. Hu, a former Foreign Minister and now highly popular local leader in Taiwan, is a well-respected influential Kuomintang (KMT) insider and a close associate of KMT Chairman Ma Ying-jeou.

Taichung's Economic Boom

¶3. (C) Mayor Jason Hu described his city's development in positive terms, expressing confidence that Taichung will develop and excel despite the increasing global competition local high-tech firms are facing. Hu pointed to three signs of the city's rapid development over the past five years: 1) a red-hot real-estate market that has seen property prices triple in under three years; 2) a correspondingly profitable construction sector; and 3) effective government tax collection and revenue growth that allow for investment in infrastructure and long-term development projects.

¶4. (C) The city's growth is driven in part by the development of the Taichung Science Park, which has attracted heavy investment from global companies like Corning and given incentives to local high-tech companies to stay on the island. Taichung's service and entertainment industries also account for much of the growth. Hu noted his city now has

six large department stores, all of which were profitable last year for the first time, and several five star hotels. Despite a polarized political atmosphere in Taipei, Hu said that in Taichung good working relations between the city and the central government, especially with Premier Su Tseng-chang, have helped Taichung continue to invest in its

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future development and maintain its competitive advantages.

15. (C) With the success of the Science Park the city is now starting up a new park to attract precision machine-tool manufacturers. Hu said space at the new facilities is going quickly with 90 factories already signing agreements to move into the park. The Director underscored to Hu the need to ensure that precision machine tools are not sold to Iran and North Korea, noting their repeated attempts to use third parties to purchase advanced machine tools for their weapons programs. Hu said Taichung would work with the central authorities as necessary and noted that export controls remain a central government responsibility.

Party Politics

16. (C) Turning to politics, Hu suggested that the KMT's ability to remain unified will be the key to the party winning the presidency and returning to power in 2008. Despite intense internal criticism of KMT Chairman Ma Ying-jeou over the past few weeks, Hu suggested that Ma should be given the chance to run his "own show" within the party. Hu added that he is no longer advising Ma as much as in the past, noting that Ma needs to make mistakes and suffer political "bruises" to become a better leader.

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17. (C) Hu said that Ma remains the most viable presidential candidate from the KMT camp, but cautioned that Ma will not be able to "run away" with the race in 2008. Ma faces a tough battle ahead of him against seasoned DPP politicians such as Premier Su Tseng-chang or Frank Hsieh (Chang-ting). Ma's greatest weakness, Hu continued, stems from his reserved and distant personality which makes it more difficult for him to forge close relations with other KMT leaders. Hu downplayed the possibility that Ma would select Wang Jin-pyng as a vice presidential running mate, suggesting that former Control Yuan President Wang Ching-feng, an independent lawyer from the south, would make for a better running mate. She would attract the woman vote as well.

18. (C) Hu asserted that Wang has been preparing over the past several months to make a political "comeback" and to challenge Ma in the KMT presidential primary if the opportunity presents itself. According to Hu, Wang sees an opening created by the launch of an investigation into Ma's use of a mayoral special budget late last year. Wang has been savvy in using the media to his advantage, pushing through proteges and press leaks the idea that the KMT needs to have a "Taiwanese" face in 2008. Hu noted that Wang had approached KMT Honorary Chairman Lien Chan to seek his assistance in containing Ma supporters like Hu from voicing opposition to a Wang candidacy. Hu assessed that because of the ongoing Wang-Ma rivalry within the party, Wang would probably not agree to be Ma's vice presidential running mate. (Note: An advisor to Wang suggested to AIT last December that the end-game of Wang's maneuvering was to land the vice-presidential slot on the KMT ticket (REF). End Note.)

Defense Budget

19. (C) Asked by the Director about the prospects for the passage of the 2007 annual budget, which includes the purchase of various U.S. weapons systems, Hu responded that the KMT was not against boosting defense spending in

principle. Wary of giving President Chen anything he could tout as a personal triumph, however, KMT lawmakers took offense at remarks by the President late last year that implied those who don't support defense spending are pro-Chinese Communist. The Director underscored the need for all parties to put aside partisan bickering and give Taiwan's national security interests first priority. Hu responded that Chairman Ma has been exerting pressure on the KMT caucus to pass an enhanced defense budget. Despite an internal KMT consensus on the need to move the budget forward, Hu suggested that when it comes time to vote on the LY floor, "passion" and immediate political advantage often trump longer-term interests.

Comment

¶10. (C) Mayor Hu, relaxed and frank, appears to have recovered fully from an automobile accident last year that sent him to the hospital and almost took the life of his wife, Shirley Shaw. His optimism on the state of Taiwan's economy, and the future prospects of Taichung's economic development, contrast sharply with the often caustic rhetoric in Taipei. His frank remarks on the challenges ahead for Ma and on Wang's political ambitions suggest that the rivalry between these two KMT leaders may intensify in the coming months.

YOUNG